

Message Text

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ORIGIN INT-08

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DRAFTED BY: INTERIOR/OSW: GRUA

APPROVED BY: NEA/ARP: FMDICKMAN

MR. WRAMPELMEIER

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R 031952Z OCT 73

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA

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FOR CHARGE D'AFFAIRES HUME HORAN

E.O. 11652: N/A

TAGS: OCON, OTRA-NL

SUBJECT MEETING WITH CONTINENTAL ENGINEERING

FYI- 1. THE FOLLOWING LETTER HAS BEEN SENT THIS DATE TO HRH PRINCE
MOHAMED AL-FAISAL:

"WE ARE PLEASED TO REPORT TO YOU THAT ON SEPTEMBER 18 AND 19TH
THE MEETINGS IN AMSTERDAM WITH KELLOGG CONTINENTAL WERE HELD AND A
FINAL SETTLEMENT REACHED. MR. ADNAN SAMMAN OF YOUR OFFICE ATTENDED
THE MEETINGS AND WAS IMMEASURABLY HELPFUL IN REACHING THIS SETTLE-
MENT. WE WILL NOT ATTEMPT TO DETAIL OUR DISCUSSIONS WITH CE,
AS WE EXPECT MR. SAMMAN HAS REPORTED TO YOU IN DETAIL.

THE NEGOTIATIONS WITH MR. DERIDDER AND HIS STAFF AT KELLOGG
CONTINENTAL WERE DIFFICULT; HOWEVER, WE FEEL THAT MR. DERIDDER
WAS VERY UNDERSTANDING OF THE PROBLEMS AND THE AGREEMENTS REACHED
ARE REASONABLY EQUITABLE TO BOTH SIDES. AS AN EXAMPLE, THE LABOR
COST ESTIMATES WERE DISPUTED. THE ESTIMATES WE HAD PREPARED USED
DOLS 20 PER HOUR. CONAM INVOICES TO CONTINENTAL AVERAGED ONLY
DOLS 3.30 PER HOUR. CONTINENTAL IN CHECKING WITH OTHER PROJECTS
IN THE EASTERN PROVINCES OF SAUDI ARABIA FOUND A MAXIMUM LABOR
RATE OF DOLS 8 TO DOLS 10. BASED ON THESE FACTS THE RATE

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WAS AGREED TO BY BOTH PARTIES AT DOLS 10/HOUR.

THE TOTAL SETTLEMENT REACHED WAS DOLS 192,350. ON THE SURFACE THIS SEEMS LIKE A SMALL AMOUNT COMPARED TO ALMOST DOLS 1.5 MILLION WHICH WE HAVE RECOMMENDED THAT YOU EXPEND TO UPGRADE THE PLANTS. BASED ON THE REPORT OF THE OFFICE OF SALINE WATER INVESTIGATIVE TEAM, WHICH VISITED JIDDA IN FEBRUARY 1973, THE MAXIMUM LIABILITY WHICH COULD BE ATTRIBUTED TO CONTINENTAL ENGINEERING WAS DOLS 368,000. USING THE NEGOTIATED LABOR RATE OF DOLS 10/HOUR THIS LIABILITY IS REDUCED TO DOLS 300,000. PRO-RATING THE USEFUL LIFE OF THE EQUIPMENT INSTALLED, FOR THE 2 YEARS SERVICE RECEIVED, RESULTED IN A FURTHER REDUCTION OF THE TOTAL LIABILITY. OTHER NEGOTIATIONS RESULTED IN A LOWERING OF IMPORT TAX USED IN THE OSW ESTIMATE. IN CONSIDERATION OF THESE ITEMS THE FAIR AND EQUITABLE ADJUSTMENT AS COULD BE EXPECTED.

OF THE DOLS 1.5 MILLION YOU WILL BE REQUIRED TO DISBURSE, 66 PERCENT OF DOLS 1 MILLION WILL BE FOR UPGRADING ADDITIONS AND IMPROVEMENTS (REFLECTING STATE-OF-THE-ART CHANGES), 20 PERCENT OR DOLS 250,000 IS FOR DEFICIENCIES IN THE ORIGINAL DESIGN, AND THE REMAINING 14 PERCENT ARE CONSTRUCTION DEFICIENCIES.

WE HOPE THE ATTACHED AMENDMENT MEETS WITH YOUR APPROVAL AND YOU WILL SIGN AND RETURN IT TO US BEFORE OCTOBER 15.

AGAIN, WE APPRECIATE MR. SAMMAN'S ASSISTANCE IN THE NEGOTIATIONS, AND YOUR OWN PERSONAL INTEREST AND SUPPORT OF OUR EFFORT TO COMPLETE THIS PROJECT. SINCERELY YOURS, J.W. O'MEARA, DIRECTOR."

2. THIS WILL COMPLETE THE OBLIGATIONS OF KELLOGG CONTINENTAL UNDER OSW CONTRACT 14-30-1743 FOR THE CONSTRUCTION OF THE JIDDA POWER & DESALTING PLANT.

3. PLEASE ADVISE SHOULD YOU REQUIRE ANY ASSISTANCE FROM THIS OFFICE. KISSINGER

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